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DE RUEHSO #0245/01 0651939
ZNR UUUUU ZZH
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FM AMCONSUL SAO PAULO
TO RUEHC/SECSTATE WASHDC 4612
INFO RUEHBR/AMEMBASSY BRASILIA 5770
RHEHNSC/NSC WASHDC
RUCPDOG/USDOC WASHDC 2293
RUEHMN/AMEMBASSY MONTEVIDEO 1833
RUEHKO/AMEMBASSY TOKYO 0390
RUEHBS/USEU BRUSSELS
RUEHBU/AMEMBASSY BUENOS AIRES 2066
RUEHAC/AMEMBASSY ASUNCION 2417
RUEHSG/AMEMBASSY SANTIAGO 1580
RUEHLP/AMEMBASSY LA PAZ 2612
RUEHRG/AMCONSUL RECIFE 2735
RUEHRI/AMCONSUL RIO DE JANEIRO 6863

UNCLAS SECTION 01 OF 03 SAO PAULO 000245

SIPDIS

DEPT FOR WHA/BSC AND EB/CIP
STATE PASS TO USTR FOR MSULLIVAN
NSC FOR SUE CRONIN
USDOC FOR 4332/ITA/MAC/OLAC/DRISCOLL,BASTIAN
USDOC FOR 3134/USFCS/OIO/MKESHISHIAN

SENSITIVE
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TAGS: [ECPS](#) [ECON](#) [PGOV](#) [ETRD](#) [BEXP](#) [BR](#)
SUBJECT: BRAZIL CRAWLS TOWARD DIGITAL TV

¶1. (SBU) SUMMARY. With the nominal March deadline set for the adoption of a digital television (DTV) standard, Brazilian officials remain divided on the issue, and the recent entry of the Brazilian Congress into the process will likely delay a final decision. Brazil is currently choosing a digital TV standard from among three competing consortia: ATSC (embraced by the United States, Canada, Mexico, and South Korea), DVB (the European standard), and ISDB-T (Japan's choice). While the Japanese standard is favored by Minister of Communications Helio Costa, it has become clear that the President's office will be making the ultimate call on this. U.S. Mission is working with the ATSC Forum and ATSC-related companies to showcase the merits of that standard. END SUMMARY.

DIGITAL TV DECISION STILL UP IN THE AIR

¶2. (SBU) Brazil's interagency community is in the midst of a complicated process to select the standard for the country's digital TV system. While Minister of Communications Helio Costa, a proponent of the Japanese standard, has led much of the Government's preparatory efforts, responsibility for presenting the options to President Lula has now shifted to the president's Chief of Staff: Dilma Rousseff. Based upon Mission's contacts with Rousseff, she appears determined at all costs to avoid a repeat of the debacle surrounding Brazil's choice of its PAL-M analog standard - which ended up being embraced by only Brazil and Laos (the latter hardly a major world player). According to Rousseff and Minister of Trade Luiz Fernando Furlan, Brazil's decision should be based on the needs of Brazilian manufacturers and the country's potential export markets. Minister of Culture Gilberto Gil has chimed in as well, noting that all three standards equally meet Brazil's technological requirements and that the choice will be based on business and regulatory concerns.

¶3. (SBU) While Minister Costa announced recently that Lula has all the information he needs to make a decision, this statement appears to be a bit premature. The various ministries involved have until March 10 to submit their views to the President's office (the Planalto). Thereafter, it is unclear when a decision would be made.

One industry contact Emboff spoke to thought that given the desire on the part of some GOB staffers to convene another round of meetings between high-level officials and consortia reps, no decision would be forthcoming until May or June.

14. (SBU) Meanwhile, Federal Deputy Walter Pinheiro (PT-Bahia) has presented a bill to Congress that would suspend the March 10 deadline and allow more time to discuss the issue within the Brazilian government. While Pinheiro's bill stands little chance of passage, it has served notice to the executive branch that Congress would like input into the ultimate decision, thus throwing another wild card into the deck. A recent editorial in the influential newspaper "O Estado de Sao Paulo" notes that Congress' decision to enter the debate comes late in the process and will only deepen the differences within the GOB, adding pointedly, "this is a billion dollar business. The changeover from analog to digital will cost about USD 45 billion dollars over four years... Depending on the standard selected, Brazil stands to export digital TV sets, and not just to South American countries."

JAPANESE DIGITAL TV STANDARD COSTS THE CONSUMER MORE

15. (U) According to a report by the GoB's Technological Research and Development Foundation Center (CPqD), the Japanese digital television standard would be the most expensive for the consumer among the systems being considered for adoption in Brazil. Reports say the leaking of the report's conclusions displeased Minister Costa, who labeled the data as "inconsistent". The report states that, of the three consortia, the European standard would have the lowest broadcasting cost to Brazil. The study also recommends that selection not be based on technological considerations alone.

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GOB SEEKING FINANCIAL INCENTIVES

16. (SBU) In recent days, it has become clear that the GOB is placing a great deal of emphasis on the financial incentives that each consortia can offer. We know that Trade Ministry staffers have approached one ATSC manufacturer seeking a commitment to invest in local production of television sets and/or semi-conductors. Other key factors for the Brazilians will likely be exemptions from royalty requirements, cut-rate financing and/or loan guarantees, opportunities for both technology transfer and Brazilian participation in the development of "middleware," and the potential for duty-free access by Brazilian manufacturers of receivers to developed country markets. We were told by one industry contact that the GOB thought that if it were accorded duty-free access to the U.S. market, DTVs manufactured in the south of Brazil could get to the U.S. market as cheaply as those made in Mexico. Meanwhile, the Europeans are already moving to sweeten their offer. Siemens has announced that it will create a DTV Development Center in Manaus. Once operational, the USD 5.5 million facility would be capable of exporting 2.5 million Euros annually in software and set-top boxes.

17. (SBU) According to the ATSC Forum, there are at least eight equipment manufacturers competing to provide ATSC transmission equipment (compared to only two for the Japanese system). In the U.S., Harris Corporation is the leading provider in this highly competitive market. Harris played a leading role in preparing U.S. broadcasters for the introduction of DTV, and, if Brazil were to adopt the ATSC standard, Harris would be prepared to:

-- Conduct up to three, week-long, intensive ATSC Convergence Seminars,

-- Following ATSC adoption, for any transmitter sold, train up to three technicians about the transmitter, and

-- Open a factory in Brazil for the final assembly of transmitters and excitors.

¶8. (SBU) Meanwhile, the ATSC Forum also reports that, again if Brazil were to adopt the ATSC Standard, Zenith Electronics and its parent company, LG Electronics, would be prepared to support the transition to DTV broadcasting through:

- Direct contributions to a Brazilian DTV development fund,
- Transfer of receiver reference designs to Brazilian manufacturers,
- Transfer of ATSC modulator reference designs to Brazilian manufacturers, and
- Expanded manufacturing investments in Brazil.

The timing and amounts of these investments and contributions would depend on the pace of the DTV transition in Brazil.

MISSION EFFORTS

¶9. (SBU) Over the past month, FCS and State have worked closely with the ATSC Forum to highlight the advantages associated with the ATSC system. Now that the competition is reaching the end-game stage, we are intensifying our efforts. Charge has co-signed a letter with the Canadian and South Korean Ambassadors (the Mexican Ambassador couldn't get authorization from his capital to sign) emphasizing the degree to which the ATSC standard would promote the GOB's goal of digital inclusion. In addition, we are pushing forward on the public diplomacy front and keeping in touch with ATSC manufacturers - who are conducting their own lobbying

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campaign. Specifically, both Embassy and Consulate will note to our interlocutors here that the GOB can easily gain duty-free access to the U.S. market for Brazilian-manufactured digital televisions by simply signing on to the WTO Information Technology Agreement. Overall, Mission shall continue to report on the DTV issue as the situation develops.

¶10. (U) This cable was coordinated with Embassy Brasilia.

McMullen